

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**FOLLOW-UP AUDIT OF WEST VIRGINIA
MEDICAID PAYMENTS FOR CLINICAL
LABORATORY SERVICES**



**JANET REHNQUIST
INSPECTOR GENERAL**

**APRIL 2002
A-03-01-00220**

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APR 24 2002

Our Reference: Common Identification Number A-03-01-00220

Paul L. Nusbaum, Secretary
West Virginia Department of Health and Human Resources
State Capitol Complex Building
Room 206
Charleston, West Virginia 25305

Dear Mr. Nusbaum:

We have audited the West Virginia Department of Health and Human Resources (State agency) reimbursements for outpatient clinical laboratory services under the Medicaid program. The objective of our audit was to determine the adequacy of State agency controls over claiming Federal Financial Participation (FFP)¹ for Medicaid payments to providers in Calendar Years (CYs) 1996 through 1998 for outpatient clinical laboratory services paid above Medicare amounts.

This is a follow-up of our audit of West Virginia Medicaid clinical laboratory claims (CIN A-03-96-00203), which showed that the State agency overpaid clinical laboratory claims totaling \$1,378,601 (FFP \$1,047,789) during CY 1993 and 1994. Our follow-up audit disclosed that the State agency still lacked adequate controls to prevent claiming FFP for Medicaid clinical laboratory payments in excess amounts paid by the Medicare program, as required by Section 6300 of the State Medicaid Manual. In this regard, Medicare regulations provide that claims for laboratory services in which a provider bills separately for tests, that are available as part of a panel, should be paid at the lesser amount for the panel. Additionally, services that duplicate one another should not be billed on the same day by the same provider for the same patient.

We did not review unbundled and duplicated laboratory services from 1995, because we chose to review the 3 most recent years for which the paid claims tapes were available. Since the 1998 paid claims tapes were available, we determined that the 3 year period should start in 1996.

As a result of inadequate internal controls, the State agency overpaid providers \$711,323 and should refund the Federal share of \$521,660. Additionally, the Federal share of the prior overpayments from CY 1993 and CY 1994 totaling \$1,047,789 has not been refunded.

¹ The Federal Financial Participation is also called the Federal share.

To accomplish the audit objective, we randomly selected 206 potentially overpaid chemistry, hematology and urinalysis claims² from a population of 98,225 potentially overpaid CYs 1996 through 1998 claims, with payments totaling \$2,037,563. We found that 198 of the 206 sampled claims were overpaid.

- We found that 67 of the 69 sampled chemistry claims involved services that were available as part of an automated multichannel chemistry panel and should have been paid at the lesser amount for the panel rather than at the higher individual services amount.
- We found that 66 of the 67 sampled claims hematology services were overpaid due to duplication and billing for hematology indices.
- We found that 65 of the 70 sampled claims of urinalysis services involved duplicate services.

We also noted that as of April 1998, chemistry unbundling overpayments increased and none of the chemistry overpayments involved multichannel panel codes. At that time the Centers for Medicare and Medicaid Services (CMS), formerly the Health Care Financing Administration, instructed Medicare providers to eliminate these multichannel panel codes so that Medicare payers (carriers and intermediaries) could determine and pay the proper panel code utilizing claim edits. The providers also billed Medicaid the same as Medicare for unbundled services. However, the State agency did not pay the proper panel code which caused the increase in CY 1998 unbundling overpayments for chemistry.

Projecting the results of our statistical sample over the population using standard statistical methods, we estimate that the State agency overpaid providers \$711,323 (Federal share \$521,660). Additionally, we determined that the State agency recaptured clinical laboratory overpayments of \$995,083³, but the FFP on these overpayments was not refunded to the CMS.

We are recommending that the State agency:

1. Install and revise edits to detect and prevent payments for unbundled and duplicated services.

² A claim is all laboratory services performed on the same day, for the same patient by the same provider.

³ In our draft report, we stated that the State agency had recovered \$995,083 related to CYs 1996 and 1997 overpayments. However, upon further review we determined that there is no information in the State agency's substantiation of these overpayments which shows the time period for these overpayments. The State agency response states that it performed a post payment review of years 1993 through 1997. However, we do not know which portion of the substantiated recovery relates our audit period of CY 1996 through CY 1998 and which portion relates to our prior audit period of CY 1993 and CY 1994. We amended our final report to reflect this change.

2. Make an adjustment for the Federal share of \$521,660 in laboratory overpayments on its Quarterly Report of Expenditures to the CMS⁴.
3. Refund the Federal share of overpayments related to 1993 and 1994 unbundling overpayments totaling \$1,047,789 as identified in our prior report (CIN A-03-96-00203).

By letter dated November 26, 2001, the State agency responded to a draft of this report. The State agency generally agreed to Recommendation Number 1. However, the State agency contended it had already made certain refunds, with respect to Recommendations Number 2 and 3 and suggested alternative amounts for the total refunds. We have reviewed the State agency's response and included it as **APPENDIX C** to this report. We have also presented a summary of the State agency's comments after the **CONCLUSIONS AND RECOMMENDATIONS** section of this report.

INTRODUCTION

BACKGROUND

Medicaid, a Federally aided, State program established under Title XIX of the Social Security Act, provides medical assistance to certain individuals and families with low income and resources. Within broad Federal guidelines, States design and administer the Medicaid program under the general oversight of the CMS. States are required to pay for certain medical services such as outpatient clinical laboratory services.

Laboratory services are performed by providers on patients' specimens to help physicians diagnose and treat ailments. Chemistry services are laboratory tests involving the measurement of various chemical levels in blood. Because the tests are frequently performed on automated equipment, Medicare requires that they be reimbursed at a pre-determined panel reimbursement rate. The panel rates reflect the fact that these services are performed in a group on multichannel equipment. Therefore, the panel rates are less than the total for each service, if paid individually. Chemistry services are also combined under problem-oriented classifications (referred to as organ panels). Organ panels were developed for coding purposes and are to be used when all of the component services are performed. Many of the component services of organ panels are also chemistry panel services.

⁴ We changed recommendation number 2 from our draft report which told the State agency to provide CMS evidence of the Federal share refund related to clinical laboratory overpayments recovery of \$995,083 because we do not know which portion of these overpayments relate to our audit period.

The testing may be performed in a physician's office, a hospital laboratory, or by an independent laboratory. The providers submit claims for laboratory services performed on Medicaid beneficiaries. Claims processing is the responsibility of a designated Medicaid agency in each State which may elect to use outside fiscal agents to process claims. The West Virginia State agency elected to use an outside fiscal agent, Consultec.

The State Medicaid Manual limits Medicaid payments for outpatient clinical laboratory tests to the amount that Medicare pays. Specifically:

- ☞ Section 6300.1 states that Federal matching funds will not be available to the extent a State pays more for outpatient clinical laboratory tests performed by a physician, independent laboratory, or hospital than the amount Medicare recognizes for such tests.
- ☞ Section 6300.2 states that payment for clinical laboratory tests under the Medicaid program cannot exceed the amount recognized by the Medicare program. The Medicare carrier (the contractor that administers Medicare payments to physicians and independent laboratories) maintains the fee schedule and provides it to the State Medicaid agency in its locality.
- ☞ Section 6300.5 allows a State agency to enter into agreements to purchase laboratory services. However, states may not pay more in the aggregate for clinical diagnostic laboratory tests than the amount that would be paid for the tests under the Medicare fee schedule.

Under Medicaid, clinical laboratory services are reimbursed at the lower of the fee schedule amount or the actual charge.

SCOPE

Our audit was conducted in accordance with Generally Accepted Government Auditing Standards. The objective of our audit was to determine the adequacy of State agency controls over claiming Federal Financial Participation (FFP) for Medicaid payments to providers in CYs 1996 through 1998 for outpatient clinical laboratory services paid above Medicare amounts. To accomplish our objective we:

- reviewed the State agency policies and procedures for processing Medicaid claims from providers for clinical laboratory services.
- reviewed the State agency controls and edits regarding unbundled and/or duplicated laboratory services.

- reviewed the West Virginia Medicare carrier and intermediary policies for processing Medicare claims from providers for clinical laboratory services during our review period.
- extracted 98,225 claims from the West Virginia Department of Health and Human Resources CY 1996 through 1998 paid claims for 3 strata: chemistry, hematology, and urinalysis, with payments totaling \$2,037,563.
- selected a random statistical sample of 69 chemistry claims valued at \$1,550 from 68,524 CY 1996 through 1998 paid claims chemistry claims totaling \$1,710,712 and 67 hematology claims valued at \$973 from 15,071 hematology claims totaling \$224,849 and 70 urinalysis claims valued at \$466 from 14,630 urinalysis claims totaling \$102,001.
- reviewed the randomly selected claims and supporting documentation, including remittance advices from the State agency to determine if the services were paid or adjusted. We tested the reliability of computer generated output by comparing data to supporting documents for our sampled items. We did not, however, assess the completeness of data in the paid claims files nor did we evaluate the adequacy of the input controls.
- utilized a stratified variable sample appraisal methodology to estimate the amount of overpayment for laboratory tests.
- requested documentation of the amount refunded on the West Virginia Medicaid Quarterly Report of Expenditures (form CMS-64) for the period 1996 through 1998.

Our review of internal controls was limited to an evaluation claims processing for clinical laboratory services. Specifically, we reviewed the State agency policies and procedures and instructions to providers related to the billing of clinical laboratory services. We also reviewed the State agency documentation relating to manual and automated edits for bundling of chemistry tests. We limited our audit to claims paid by the State agency during CYs 1996 through 1998. Details of the methodology used in selecting and appraising the sample are contained in APPENDIX A to this report. We performed our audit between November 2000 and August 2001. During this period we visited the State agency office in Charleston, West Virginia.

FINDINGS AND RECOMMENDATIONS

Contrary to the State Medicaid Manual, the State agency claimed FFP for claims which it paid providers more for laboratory tests than would have been paid under the Medicare program. As a result the State agency overpaid providers \$711,323 and should refund the Federal share of \$521,660.

The State agency recaptured laboratory overpayment totaling \$995,083 and stated that it refunded the Federal share. However, it can not identify the amount refunded. State agency officials indicated the refunds were related to amounts recaptured from providers at various times from 1998 through 2000. We requested documentation of these refunds. State agency officials explained that it netted the refund with expenditures on form CMS-64 and did not identify or document the transactions. As a result, we cannot determine that the refund was made. Additionally, we determined the Federal share of the laboratory overpayments from a 1993 and 1994 audit (CIN A-03-00-00203) totaling \$1,047,789 have not been refunded.

CHEMISTRY

Contrary to the State Medicaid Manual Section 6300, the State agency paid providers more for laboratory tests than would have been paid under the Medicare program. Specifically, the State agency reimbursed Medicaid providers for chemistry tests that were not properly grouped together in a panel or were duplicated for payment purposes. These improper payments were caused by the State agency's lack of edits to eliminate payments for unbundled services.

We randomly selected and reviewed 69 claims totaling \$1,550 from the population of 68,524 CY 1996 through 1998 paid chemistry claims files with services valued at \$1,710,712. Our review showed that 67 of the 69 claims were paid incorrectly. We projected the results of our statistical sample of laboratory services over the population using standard statistical methods.

We estimated that the State agency overpaid providers \$711,323, based on our statistical analysis of laboratory claims. In order to determine the amount of overpayments attributable to chemistry, we used an allocation based on the point estimate of the chemistry strata compared to the overall point estimate. We estimated that the State agency overpaid providers \$627,151 (Federal share \$459,958) for these tests during the 3-year audit period.

The 67 payment errors are summarized as follows:

- ✓ 21 payments for two or more chemistry tests, which are components of a panel (component chemistries). All of these were in 1998.
- ✓ 34 payments for panel tests and component chemistries.
- ✓ 9 payments for multichannel panel tests billed with other multichannel panel tests.
- ✓ 3 payments for multichannel panel tests billed with other multichannel panel tests and component chemistries.

Section 5114.1.L.2 of the Medicare Carriers Manual states that if the Carrier:

“receives claims for laboratory services in which the physician or laboratory has separately billed for tests that are available as part of an automated battery test, and, in the carrier's judgement, such battery tests are frequently performed and available for physicians' use, the carrier should make payment at the lesser amount for the battery. The limitation that payment for individual tests not exceed the payment allowance for the battery is applied whether a particular laboratory has or does not have the automated equipment.”

We also noted that chemistry unbundling overpayments in our sample increased in 1998. This increase was also reflected in the population of potential chemistry errors as illustrated in the table below:

| POTENTIAL CHEMISTRY ERRORS BY YEAR | | |
|------------------------------------|-------|--------|
| 1996 | 1997 | 1998 |
| 35,245 | 8,277 | 25,002 |

The 1998 increase occurred when CMS instructed providers to bill unbundled Medicare services and eliminate multichannel panel codes, so Medicare payers (carriers and intermediaries) could determine and pay the proper panel code, utilizing claim edits. Providers followed these instructions for Medicaid claims as well as Medicare claims. However, unlike the Medicare payers, the State agency did not have the edits in place to pay the proper panel code. This caused an increase in unbundling overpayments for chemistry during 1998. The population of potential chemistry errors reflect this increase in that it is 302 percent larger than 1997. Most of this increase took place in the last nine months of 1998, which coincides with the Medicare change. Therefore, because the State agency did not implement edits, the escalation in unbundling overpayments could have continued after 1998.

HEMATOLOGY

The State agency controls regarding hematology claims were not sufficient to eliminate overpayments for duplicate services or additional hematology indices⁵. Therefore, the State agency paid more for hematology tests than the Medicare carrier and intermediary, which violates Section 6300.1 of the State Medicaid Manual described above.

We randomly selected and reviewed 67 hematology claims valued at \$973 from the sample population of CY 1996, 1997 and 1998 paid claims with 15,071 services valued at \$224,849. Our review showed that 66 of the 67 claims were overpaid and overpayments totaled \$264. We

⁵ Indices are measurements and ratios calculated from the results of hematology tests. Examples of indices performed as part of a hematology profile are red blood cell width, red blood cell volume and platelet volume.

projected the results of our statistical sample of laboratory services over the population using standard statistical methods.

Overall, we estimated that the State agency overpaid providers \$711,323, based on our statistical analysis of laboratory claims. In order to determine the amount of overpayments attributable to hematology, we used an allocation based on the point estimate of the hematology strata compared to the overall point estimate. We estimated that the State agency overpaid providers \$52,865 (Federal share \$38,719) for hematology tests during the 3-year audit period.

The 66 payment errors are summarized as follows:

- ✓ 55 payments for additional hematology indices that were billed with hematology panels. Medicare contractor studies have determined that the additional indices are an automatic by-product of the hematology panels and not a separate service.
- ✓ 11 payments for hematology services that duplicate other hematology services in the claim.

URINALYSIS

The State agency controls regarding urinalysis claims were not sufficient to eliminate overpayments for duplicate services. Therefore, the State agency paid more for urinalysis tests than the Medicare carrier and intermediary, which violated Section 6300.1 of the State Medicaid Manual described above.

Regarding urinalysis billing, the Medicare carrier manual at Section 5114 requires that, if the “non-automated urinalysis, without microscopy” and the “urinalysis, microscopic only” services are billed, it should be paid as if the all-inclusive urinalysis was billed. The all-inclusive urinalysis is described in CPT code 81000 as:

“Urinalysis by dip stick or table reagent for bilirubin, glucose, hemaglobin, ketones, leukocytes, nitrate, pH, protein, specific gravity, urobilinogen, any number of these constituents; non-automated, with microscopy”

We randomly selected and reviewed 70 urinalysis claims with services totaling \$466 from 14,630 claims totaling \$102,001. Our review disclosed that 65 of 70 urinalysis claims each included 1 duplicate service and 1 allowable service. The duplicate overpayments on these 65 claims total \$169. We projected the results of our statistical sample of laboratory services over the population using standard statistical methods.

Overall, we estimated that the State agency overpaid providers \$711,323, based on our statistical analysis of laboratory claims. In order to determine the amount of overpayments attributable to urinalysis, we used an allocation based on the point estimate of the hematology strata compared to the overall point estimate. We estimate that the State agency overpaid providers \$31,307 (Federal Share \$22,983).

FOLLOW UP OF PRIOR AUDIT REPORT

In our prior audit report (CIN A-03-96-00203), which covered clinical laboratory claims paid in 1993 and 1994, we concluded that the State agency did not have adequate edits in its claims processing system to ensure that all reimbursements for clinical laboratory tests paid under Medicaid did not exceed amounts recognized by Medicare. We found that providers received excess reimbursement for Chemistry tests that should have been bundled at a lower panel rate. Based on the lower limit of our sample of paid claims, we estimated that the State agency overpaid providers \$1,378,601 and recommended that it refund the Federal share \$1,047,789.

In response to our report, the State agency generally agreed with our recommendations including the recommendation of refunding the Federal portion of overpayments. It disagreed over the amount reported and the sampling methodology, but gave no alternative methodology. Our recent audit showed that the State agency still has not implemented edits to detect unbundled or duplicated services.

With regard to recoveries of overpayments made to providers, 42 Code of Federal Regulations Section 433.300 states:

“...quarterly Federal payments to the States under Title XIX...are to be reduced...a State has 60 days from discovery of an overpayment for Medicaid services to recover or attempt to recover the overpayments from the provider before adjustment in the Federal Medicaid payment to the State is made; and that adjustment will be made at the end of 60 days, whether or not recovery is made...”

The above citation requires the State agency to make adjustments for the balance of prior overpayments not refunded to CMS. As a result, the State agency should adjust its Quarterly Report of Expenditure (form CMS-64) for \$1,047,789, as recommended in our prior report.

CONCLUSIONS AND RECOMMENDATIONS

The State agency reimbursed providers for laboratory services for chemistry, hematology and urinalysis claims for services that were not grouped together (bundled into a panel) or duplicated other paid services. We estimated that the State agency overpaid providers \$711,323 (Federal share \$521,660) for laboratory services during CY 1996, 1997 and 1998. The State agency has recovered laboratory unbundling overpayments of \$995,083. However, we can not determine that it refunded the Federal share of these overpayments. Additionally, no overpayments related to our prior audit report (CIN A-03-96-00203) for West Virginia Laboratory overpayments were refunded.

We are recommending that the State agency:

1. Install and revise edits to detect and prevent payments for unbundled and duplicated services.
2. Make an adjustment for the Federal share of \$521,660 of laboratory overpayments on its Quarterly Report of Expenditures to the CMS.
3. Refund the Federal share of overpayments related to 1993 and 1994 unbundling overpayments totaling \$1,047,789 as identified in our prior report (CIN A-03-96-00203).

STATE AGENCY COMMENTS

Recommendation Number 1 - Install and revise edits to detect and prevent payments for unbundled and duplicated services.

State Agency Response

The State agency generally agreed with the recommendation.

Recommendation Number 2 - Either provide CMS evidence of the Federal share the clinical laboratory overpayment recovery of \$995,083, or make an adjustment for the Federal share of \$521,660 of laboratory overpayments on its Quarterly Report of Expenditures to the CMS.

State Agency Response

The State agency contends that it recovered overpayments and refunded \$458,057 to CMS for the Federal share of the CY 1996 and 1997 laboratory service overpayments. The State agency also disagreed with our method of projecting a stratified sample. It took issue with weighting the projection of a strata with the ratio of the strata to the sample size and recommended we adopt a method of projecting the sample that ignores the weighting factors. The State agency method results in total overpayments of \$355,412. Therefore, the State agency method of projecting the sample indicated that it has over-refunded the Federal share for laboratory service overpayments, (hereafter called over-refund) by \$102,645, which is \$458,057 less \$355,412.

OIG Comment

The State agency method of re-projecting the sample results without weighting factors is not objective or statistically sound. It ignores the huge variation in the three strata sizes. The random sample of 69 chemistry claims was taken from a strata that was much larger than the other 2 strata. Therefore, to properly project the stratified sample, the results must be weighted to compensate for this variation. The State agency method treats the sample of laboratory claims as if it was drawn from three equal size strata. Therefore, the State agency is projecting the sample to a universe that is different from which it was drawn, in order to result in the lowest overpayment, which biased the sample results.

Recommendation Number 3 - Refund the Federal share of overpayments related to 1993 and 1994 unbundling overpayments totaling \$1,047,789 as identified in our prior report (CIN A-03-96-00203).

State Agency Response

The State agency contends that it recovered overpayments and refunded \$483,692 to CMS for laboratory overpayments and recommends that this refund, which included \$178,296 for the CYs 1993 and 1994, \$202,751 for CY 1995 and the over-refund of \$102,645 be accepted in place of our recommended refund of \$1,047,789.

OIG Comment

We do not agree with the stated refund amount of \$483,692, of which only \$178,296 is for CYs 1993 and 1994. The \$483,692 also included \$202,751 for CY 1995, and the stated over-refund of \$102,645. Although the CY 1995 overpayments should be refunded, the refund of those overpayments can not lower the amount to be refunded for CYs 1993 and 1994.

The State agency also presented contradictory positions to suggest the lowest total refund to CMS for our Recommendations Number 2 and 3. Regarding our Recommendation Number 2 covering projected overpayments for CY 1996 through CY 1998, the State agency states that CMS should accept the State agency projection of \$355,412 instead of the actual recovery of \$458,057. However, regarding Recommendation Number 2 to refund \$1,047,789, which was based on a statistical projection, the State agency states that CMS should accept the actual recovery of \$178,296, instead of the projection. Finally, the State agency has not provided the requested evidence of any of these reported repayments to CMS. A complete copy of the State agency's comments can be found as **APPENDIX C** of this report.

OIG Comment Regarding The Amount of Laboratory Overpayment Recoveries

In its response, the State agency explained that it recovered overpayments of \$1,112,967. This differs from the amount of overpayment recoveries it substantiated on May 1, 2001 of \$995,083. We used the substantiated amount of recovery \$995,083 in our report.

OIG Comment Regarding The Time-Period for the Overpayment Recoveries

The State agency responded that it made recoveries from CY 1993 through CY 1997 based on “*a post payment review of years 1993 to 1997*”. The State agency substantiated recovered overpayments with recovery dates during CY 1998 through CY 2000. In addition, the State agency response to our prior report on clinical laboratory overpayments CIN: A-03-96-00203 which was written January 13, 1997, did not mention recoveries.

In our draft report, we stated that the State agency recovered \$995,083 related to CYs 1996 and 1997 overpayments. However, upon further review we determined that there is no information in the State agency’s substantiation of these overpayment recoveries showing the time period to which these overpayments relate. The State agency responded to a draft of our report stating that it performed a post payment review of years 1993 through 1997. The State agency could not explain what portion of the \$995,083 relates to our audit period of CY 1996 through CY 1998⁶ and what portion relates to our prior audit period of CY 1993 through CY 1994.

OIG Comment Regarding The Requested State Agency Refund Documentation

We made the first request for evidence of the State agency overpayment refund on February 20, 2001. State agency officials explained that it netted the overpayment refund with expenditures on form CMS-64 and did not identify or document the transactions. Subsequent to our draft report, on January 17, 2002, the State agency sent documentation showing reduced Medical Assistance Payment System (MAPS) expenditures of \$319,276 due to recoveries of laboratory overpayments. State agency officials explained that MAPS expenditures reconciled to amounts listed on the CMS-64. Therefore, these reductions when multiplied by the applicable FFP for the recovery year, represent the refund of the Federal share of the recovered overpayments. However, they did not explain and we could not discern the reconciliation process. Furthermore, we were also unable to determine which years the reductions relate to. Therefore, we could not determine if these reductions related to our recommendation for CY 1996 through CY 1998 overpayments, our recommendation for CYs 1993 and 1994 overpayments, or the year that we did not audit CY 1995. As a result, we were unable to determine if these reductions represent refunds of the Federal share or are related to our recommended recoveries.

Final determination as to actions to be taken on all matters reported will be made by the HHS action official. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination. Should you have any questions, please direct them to the action official named below.

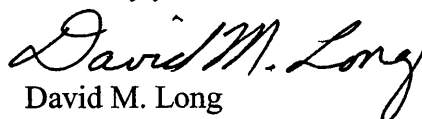
⁶In its response, the State agency indicated that it recovered \$344,737 in 1996 and \$236,885 in 1997 (totaling \$581,622), which is part of the \$1,112,967 unsubstantiated State agency collection. The State agency response did not address the total (Federal and State share) collected for CY 1993 and CY 1994.

Page 13 - Paul L. Nusbaum, Secretary

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To facilitate identification, please refer to the above common identification number in all correspondence pertaining to this report.

Sincerely yours,

A handwritten signature in black ink that reads "David M. Long". The signature is fluid and cursive, with the first letters of each word being capitalized and prominent.

David M. Long
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to the HHS Action Official

Sonya Madison
Regional Administrator
Centers for Medicare and Medicaid Services, Region III
Department of Health and Human Services
Suite 216, Public Ledger Building
150 S. Independence Mall West
Philadelphia, Pennsylvania 19106-3499

SAMPLE METHODOLOGY

From the West Virginia state agency, paid claims file for calendar years (CY) 1996, 1997 and 1998, we utilized computer applications to extract all claims containing laboratory services listed in APPENDIX B which are described in the Physician's Current Procedural Terminology (CPT) handbook. We then performed computer applications to extract all chemistry services for the same provider for the same patient for the same date of service with:

- CPT line item charges for more than one chemistry test that are components of a panel;
- a chemistry panel and at least one component of the panel tests; or
- two or more chemistry panel tests.

Regarding hematology we extracted:

- a hematology service billed with another service that duplicates at least one or more components of the service; or
- a hematology service billed with a hematology indices.

Regarding urinalysis we extracted:

- a urinalysis service billed with another service that duplicates at least one or more components of the service.

The extract resulted in a population of 98,225 claims totaling \$2,037,563 consisting of 3 strata. The first stratum of chemistry services consisted of 68,524 claims of potentially unbundled chemistry panel tests, totaling \$1,710,712. The second stratum of hematology services consisted of 15,071 claims totaling \$224,849 for potentially duplicate hematology services. The third strata included 14,630 claims of potentially duplicate urinalysis services valued at \$102,001. Each instance is a potential payment error in which the State agency paid providers for clinical laboratory tests (on behalf of the same beneficiary on the same date of service) which were billed individually instead of as part of a group, or were duplicate of each other.

On a scientific stratified selection basis, we examined 206 claims involving claims from the 3 stratum. The 3 stratum consisted of a randomly generated statistical sample of 69, 67 and 70 potentially unbundled or duplicated claims involving chemistry, hematology and urinalysis services (respectively) with potential errors as listed below:

- Stratum 1 - Chemistry tests sample of 69 totaling \$1,550
- Stratum 2 - Hematology services sample of 67 totaling \$973
- Stratum 3 - Urinalysis services sample of 70 totaling \$466.

For the sample items, we requested and reviewed supporting documentation from the State agency consisting of copies of physician, hospital or independent laboratory claim remittances, explanation of benefits paid, and related paid claims histories.

We utilized a standard scientific estimation process to quantify overpayments as shown below.

| Stratum | Number of Population Items | Number Sampled | Examined Value | Number of Errors | Error in Sample | Point Estimate |
|---------------------|----------------------------|----------------|----------------|------------------|-----------------|------------------------|
| Chemistry Services | 68,524 | 69 | \$1,550 | 67 | \$710 | \$705,509 |
| Hematology Services | 15,071 | 67 | \$973 | 66 | \$264 | \$59,470 |
| Urinalysis Services | 14,630 | 70 | \$466 | 65 | \$169 | \$35,219 |
| Total | 98,225 | 206 | \$2,989 | 198 | \$1,143 | \$800,198 ⁷ |

⁷ This can not be calculated by multiplying the total sample mean by the number of items in the universe because it is weighted by the size of the population in proportion to the total population.

Using standard statistical methods, we estimate that \$711,323 (\$521,660 Federal Share) paid for unbundled and duplicated laboratory services can be recovered. At the 90 percent confidence level, the precision of this estimate is plus or minus 11.11 percent. To determine the projected overpayments for the three strata, we apportioned the lower limit of \$711,323 based on the percentage of the point estimate in each of the stratum.

The following three samples exemplify three types of chemistry sample overpayments found:

| Sample No. | Services Billed | State agency Paid Amount | Audited Service S/B | Audited Amount | Overpayment |
|------------|-------------------------------------|--------------------------|---------------------|----------------|-------------|
| 11 | 80007, 84450, 83615, 82550 | \$31.97 | 80010 | \$11.99 | \$19.98 |
| 16 | 80004, 84450 83615, 82550 | \$29.20 | 80007 | \$11.32 | \$17.88 |
| 22 | 80006, 82040, 82977 | \$24.20 | 80008 | \$ 12.02 | \$12.18 |

The following samples exemplify two types of hematology sample overpayments found:

| Sample No. | Services Billed | State agency Paid Amount | Audited Service S/B | Audited Amount | Overpayment |
|------------|-----------------|--------------------------|---------------------|----------------|-------------|
| 2 | 85024, 85029 | \$16.46 | 85024 | \$12.02 | \$4.44 |
| 13 | 85014, 85024 | \$13.78 | 85024 | \$11.70 | \$2.08 |

The following two samples exemplify the urinalysis sample overpayments:

| Sample No. | Services Billed | State agency Paid Amount | Audited Service S/B | Audited Amount | Overpayment |
|------------|-----------------|--------------------------|---------------------|----------------|-------------|
| 2 | 81003, 81015 | \$6.73 | 81000 | \$4.37 | \$2.36 |
| 50 | 81001, 81002 | \$6.96 | 81000 | \$4.37 | \$2.59 |

AUTOMATED MULTICHANNEL CHEMISTRY PANEL TESTS

| <u>Chemistry Panels</u> | <u>CPT Code</u> |
|--|-----------------|
| 1 or 2 clinical chemistry automated multichannel test(s) | 80002 |
| 3 clinical chemistry automated multichannel tests | 80003 |
| 4 clinical chemistry automated multichannel tests | 80004 |
| 5 clinical chemistry automated multichannel tests | 80005 |
| 6 clinical chemistry automated multichannel tests | 80006 |
| 7 clinical chemistry automated multichannel tests | 80007 |
| 8 clinical chemistry automated multichannel tests | 80008 |
| 9 clinical chemistry automated multichannel tests | 80009 |
| 10 clinical chemistry automated multichannel tests | 80010 |
| 11 clinical chemistry automated multichannel tests | 80011 |
| 12 clinical chemistry automated multichannel tests | 80012 |
| 13-16 clinical chemistry automated multichannel tests | 80016 |
| 17-18 clinical chemistry automated multichannel tests | 80018 |
| 19 multi-channel clinical chemistry tests | 80019 |
| 20 multi-channel clinical chemistry tests | G0058 |
| 21 multi-channel clinical chemistry tests | G0059 |
| 22 multi-channel clinical chemistry tests | G0060 |
| Basic Metabolic Panel | 80049 |
| General Health Panel | 80050 |
| Hepatic Function Panel | 80058 |

24 Chemistry Tests (Descriptions) that are Panels Components (Includes 34 CPT Codes)

| | | |
|-----|----------------------------|-------------------------------|
| 1. | Albumin | 82040 |
| 2. | Albumin/globulin ratio | 84170 |
| 3. | Bilirubin Total OR Direct | 82250 |
| 4. | Bilirubin Total AND Direct | 82251 |
| 5. | Calcium | 82310, 82315, 82320, 82325 |
| 6. | Carbon Dioxide Content | 82374 |
| 7. | Chlorides | 82435 |
| 8. | Cholesterol | 82465 |
| 9. | Creatinine | 82565 |
| 10. | Globulin | 82942 |
| 11. | Glucose | 82947 |
| 12. | Lactic Dehydrogenase (LDH) | 83610, 83615, 83620, 83624 |
| 13. | Alkaline Phosphatase | 84075 |
| 14. | Phosphorus | 84100 |
| 15. | Potassium | 84132 |

| | | |
|-----|----------------------------------|--------------|
| 16. | Total Protein | 84155, 84160 |
| 17. | Sodium | 84295 |
| 18. | Transaminase (SGOT) | 84450, 84455 |
| 19. | Transaminase (SGPT) | 84460, 84465 |
| 20. | Blood Urea Nitrogen (BUN) | 84520 |
| 21. | Uric Acid | 84550 |
| 22. | Triglycerides | 84478 |
| 23. | Creatinine Phosphokinase (CPK) | 82550, 82555 |
| 24. | Glutamyltransferase, gamma (GGT) | 82977 |

HEMATOLOGY SERVICES

| | |
|-----------------------------------|-------|
| Red Blood Cell Count (RBC) only | 85041 |
| White Blood Cell Count (WBC) only | 85048 |
| Hemoglobin, Colorimetric (Hgb) | 85018 |
| Hematocrit (Hct) | 85013 |
| Manual Differential WBC count | 85007 |

Hematology Indices

| | |
|---|-------|
| Automated Hemogram Indices (one to three) | 85029 |
| Automated Hemogram Indices (four or more) | 85030 |

Hematology Profile CPT Codes

| | |
|---|-------|
| Hemogram (RBC, WBC, Hgb, Hct and Indices) | 85021 |
| Hemogram and Manual Differential | 85022 |
| Hemogram and Platelet and Manual Differential | 85023 |
| Hemogram and Platelet and Partial Automated Differential | 85024 |
| Hemogram and Platelet and Complete Automated Differential | 85025 |
| Hemogram and Platelet | 85027 |

URINALYSIS SERVICES

| | |
|--|-------|
| Urinalysis by dip stick or table reagent for bilirubin, glucose, hemaglobin, ketones, leukocytes, nitrate, pH, protein, specific gravity, urobilinogen, any number of these constituents; non-automated, with microscopy | 81000 |
| Urinalysis - automated, with microscopy | 81001 |
| Urinalysis- Non Automated, Without Microscopy | 81002 |
| Urinalysis - Automated, without Microscopy | 81003 |
| Urinalysis - Microscopic only | 81015 |



STATE OF WEST VIRGINIA
DEPARTMENT OF HEALTH AND HUMAN RESOURCES

Office of the Secretary

State Capitol Complex, Building 3, Room 206
Charleston, West Virginia 25305
Telephone (304) 558-0684 Fax: (304) 558-1130

Bob Wise
Governor

Paul L. Nusbaum
Secretary

November 26, 2001

David M. Long, Regional Inspector General
Office of Audit Services
Office of Inspector General
150 S. Independence Mall West
Suite 316
Philadelphia, Pennsylvania 19106-3499

Re: Draft Report
Common Identification Number: A-03-01-00220

Dear Mr. Long:

The West Virginia Department of Health and Human Resources and the Bureau for Medical Services (Bureau), the single state agency, offers this response to the draft report of the audit of Medicaid payments for clinical laboratory services dated August 2001. We will address specifically the conclusions and recommendations.

Recommendations:

1. Install and revise edits to detect and prevent payments for unbundled and duplicated services.

Response and West Virginia's recommendations:

The fiscal agent re-procurement will include "unbundling" edits. The Bureau has a new contractor in place to aid in recovery of overpayments for inappropriate claims. Bureau and contractor staff are reviewing procedures for recovery of laboratory "unbundling" overpayments and plan to initiate a recovery effort.

2. Either provide CMS evidence of the federal share refund related to the clinical laboratory overpayment recovery of \$995,083 or make an adjustment for the Federal share of \$521,660 of laboratory overpayments on its Quarterly Report of Expenditures to CMS.

David M. Long
Page Two
November 26, 2001

Response and West Virginia's recommendations:

The State disagrees with the Office of the Inspector General's (OIG) sampling methodology and recommends that OIG adopt the State's methodology, Option #4, as set forth and labeled as Attachment #1 and incorporated herein.

Option #4, which is as statistically correct as the OIG's method, provides for a recovery of \$355,411.53, as compared to the OIG's \$521,660.

The State recovered \$344,736.93 in 1996 and \$236,885.25 in 1997 for a federal share of \$458,056.51. The difference between Option #4 and the federal method is \$102,644.98.

The State recommends that the Option #4 amount of \$355,411.53 be adopted by the OIG and the additional funds of \$102,644.98 be applied to the 1993 - 1994 "unbundling" for a total of \$483,692.27

3. Refund the Federal share of overpayments related to 1993 and 1994 unbundling overpayments totaling \$1,047,789, as identified in our report (CIN A-03-96-00203).

Response and West Virginia's recommendations:

As indicated in the Bureau's response to the 1993-1994 laboratory services audit, the Bureau did not and does not have "bundling" edits in our MMIS system. We proposed and conducted a post-payment process, as provided for in 42 CFR §456.23, that reviews a provider's mis-utilization of services.

The 1993-1994 OIG audit requested a refund of an overpayment amount of \$1,047,789 federal share. The Bureau conducted a post payment review of years 1993 to 1997. Recovery was \$1,112,967.36 federal and state share. The amount recovered in 1993 was \$6,256.57 (federal share); 1994 \$172,039.24 (federal share); 1995 \$202,751.48 (federal share); for a total of \$381,047.29 together with the additional amount of \$102,644.98 be applied to the 1993-1994 findings totaling \$483,692.27.

The State recommends that the \$483,692.27, which includes 1995 and the additional funds identified in adopting the State's Option #4, be accepted as the post payment review of laboratory "unbundling" payments for the prior audit period. Attached is a sample of the quarters the recouped amounts were returned to the Centers for Medicare and Medicaid Services (CMS). See Attachment #2 incorporated herein.

Summary of Conclusions and Recommendations

1. The fiscal agent re-procurement will include "unbundling" edits. The Bureau has a new contractor in place to aid in recovery of overpayments for inappropriate claims. Bureau and contractor staff are reviewing procedures for recovery of laboratory "unbundling" overpayments and plan to initiate recoveries.
2. The State disagrees with the Office of the Inspector General's (OIG) sampling methodology and recommends that the OIG adopt the State's methodology, Option #4, as set forth and labeled as Attachment #1 and incorporated herein.

Option #4, which is as statistically correct as the OIG's method, provides for a recovery of \$355,411.53 as compared to the OIG's \$521,660.

The State recovered \$344,736.93 in 1996 and \$236,885.25 in 1997 for a federal share of \$458,056.51. The difference between Option #4 and the OIG's method is \$102,644.98.

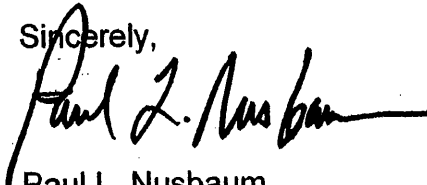
The State recommends that the Option #4, amount of \$355,411.53, be adopted by the OIG and the additional amount of \$102,644.98 be applied to the 1993 -1994 "unbundling" for a total of \$483,692.27

3. The 1993-1994 OIG audit requested a refund of an overpayment amount of \$1,047,789 federal share. The Bureau conducted a post payment review of years 1993 to 1997. Recovery was: \$1,112,967.36 federal and state share. The amount recovered in 1993 was \$6,256.57 (federal share); 1994 \$172,039.24 (federal share); 1995 \$202,751.48 (federal share); for a total of \$381,047.29 together with the \$102,644.98 totaling \$483,692.27.

The State recommends that the \$483,692.27, which includes 1995 and the additional funds identified in adopting the State's Option #4, be accepted as the post payment review of laboratory "unbundling" payments for the prior audit period.

Should you have any questions, please call Nancy Atkins, Commissioner, Bureau for Medical Services, at (304) 558-1700.

Sincerely,



Paul L. Nusbaum
Secretary

PLN:lsc

Enclosure

cc: Nancy Atkins
Phillip Lynch
Danny Franco

**West Virginia Bureau for Medical Services
Response to OIG Lab review
For the period 1996-1998**

SAMPLING METHODOLOGY:

The auditors' report states a stratified variable sample appraisal methodology was utilized to estimate the amount of overpayment for laboratory tests. In order to determine the amount of overpayments attributable to chemistry, hematology and urinalysis claims, an allocation was used based on the point estimate of each strata compared to the overall point estimate. The results for each strata were determined by adding the point estimate of each strata which was further reduced 11.11% (reported as 11.13%) to the precision lower limit of \$711,323.

The Bureau takes issue related to the sampling methodology used in the audit which makes questionable the amount of findings for the review period of 1996 through 1998.

Issue: *The methodology used by the OIG resulted in the highest possible overpayment by applying a weighted average of total claims to the error rate per sampled claim in each strata.*

Bureau's Proposal:

The Bureau calculated five (5) alternative methods for applying a weighted average to the sample results used in determining the total amount of overpayment that occurred during the time period reviewed. Absent prior instruction, the Bureau believes that each method holds equal value in assessing the amount of overpayment and that one methodology does not increase or decrease the validity of the results. The methodology used by the OIG resulted in the highest possible overpayment by applying a weighted average of total claims to the error rate per sampled claim in each strata. Conversely, the Bureau would request that the methodology that produced the least amount of overpayment be applied. Please refer to the following spreadsheet used to demonstrate the disparity in calculating the amount of overpayment based on each appropriate method of applying a weighted average and projecting it to the results.

SAMPLING METHODOLOGY

OPTION 1: WEIGHTED AVG OF THE ERROR/SAMPLE RATE

[illegible]

OPTION 2: WEIGHTED AVG OF THE AMOUNT OF OVERPAYMENT (ERROR IN SAMPLE)

[illegible]

OPTION 3: WEIGHTED AVG BASED ON THE EXAMINED VALUE

| | 1986 | | | | | | 1987 | | | | | | 1988 | | | | | | TOTAL | | | | | | | | | |
|------------|--------|----|--------|----|-------|-------|--------|----|--------|----|-------|--------|--------|--|--------|--|-------|--|----------------|--|--------------|--|--------------|--|-----------|--|-----------|--|
| | ERRORS | | SAMPLE | | OPMTS | | ERRORS | | SAMPLE | | OPMTS | | ERRORS | | SAMPLE | | OPMTS | | EXAMINED VALUE | | TOTAL CLAIMS | | DISALLOWANCE | | PRECISION | | TOTAL FFP | |
| CHEMISTRY | 34 | 34 | 389.23 | 7 | 7 | 71.12 | 28 | 28 | 280.06 | 67 | 69 | 710.41 | 1550 | | | | | | | | | | | | | | | |
| HEMATOLOGY | 39 | 40 | 127.85 | 12 | 12 | 61.23 | 15 | 15 | 85.6 | 66 | 67 | 264.38 | 973 | | | | | | | | | | | | | | | |
| URINALYSIS | 38 | 41 | 87.54 | 5 | 7 | 15.49 | 22 | 22 | 65.48 | 65 | 70 | 168.51 | 486 | | | | | | | | | | | | | | | |
| | | | | | | | | | | | 206 | 1143.3 | 2989 | | | | | | | | | | | | | | | |
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OPTION 4- WEIGHTED AVERAGE BASED ON SAMPLE SIZE

| | 1986 | | | | | | 1987 | | | | | | 1988 | | | | | | TOTAL |
|------------|--------|--------|--------|--------|--------|-------|--------|--------|--------|--------|--------|--------|--------|--------|-------|--|--|--|-------|
| | ERRORS | SAMPLE | OPMTS | ERRORS | SAMPLE | OPMTS | ERRORS | SAMPLE | OPMTS | ERRORS | SAMPLE | OPMTS | ERRORS | SAMPLE | OPMTS | | | | |
| CHEMISTRY | 34 | 34 | 359.23 | 7 | 7 | 71.12 | 26 | 28 | 280.06 | 67 | 69 | 710.41 | | | | | | | |
| HEMATOLOGY | 39 | 40 | 127.85 | 12 | 12 | 51.23 | 15 | 15 | 85.5 | 66 | 67 | 264.38 | | | | | | | |
| URINALYSIS | 38 | 41 | 87.54 | 5 | 7 | 15.49 | 22 | 22 | 65.48 | 65 | 206 | 1143.3 | | | | | | | |
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SAMPLING METHODOLOGY

OPTION 5: WEIGHTED AVERAGE BASED ON POPULATION

[illegible]

1st Quarter FFY 99

| | | |
|--------------------------------|-----------|-----------|
| Jackson General Hospital | 4,277.41 | |
| Summersville Memorial Hospital | 10,664.07 | |
| Cabell Huntington Hospital | 23,756.69 | |
| CAMC | 37,536.77 | 76,234.94 |

2nd Quarter FFY 99

| | | |
|--------------------------------|-----------|------------|
| Jackson General Hospital | 6,523.66 | |
| Summersville Memorial Hospital | 16,264.21 | |
| Cabell Huntington Hospital | 36,232.28 | |
| CAMC | 57,248.85 | 116,269.00 |

3rd Quarter FFY 99

| | | |
|--------------------------------|-----------|------------|
| Jackson General Hospital | 6,655.00 | |
| Summersville Memorial Hospital | 16,591.68 | |
| Cabell Huntington Hospital | 36,961.83 | |
| CAMC | 58,401.53 | 118,610.04 |

4th Quarter FFY 99

| | | |
|--------------------------------|-----------|------------|
| Jackson General Hospital | 6,789.00 | |
| Summersville Memorial Hospital | 16,925.75 | |
| Cabell Huntington Hospital | 37,706.05 | |
| CAMC | 59,577.43 | 120,998.23 |

1st Quarter FFY 00

| | | |
|--------------------------------|-----------|------------------|
| Jackson General Hospital | 2,293.24 | |
| Summersville Memorial Hospital | 5,717.30 | |
| Cabell Huntington Hospital | 12,736.55 | |
| CAMC | 20,124.53 | <u>40,871.62</u> |

472,983.83

2nd Quarter FFY 98

| | | |
|----------------------------|------------|------------|
| Greenbrier Valley Hospital | 218,033.42 | |
| Saint Francis Hospital | 32,768.96 | 250,802.38 |

4th Quarter FFY 98

| | | |
|-------------------------|--|-----------|
| Davis Memorial Hospital | | 68,080.54 |
|-------------------------|--|-----------|

1st Quarter FFY 99

| | | |
|------------------------------|------------|------------|
| Fairmont General Hospital | 73,565.84 | |
| Camden Clark Memorial Hos | 116,264.09 | |
| Bluefield Regional Medical C | 85,944.49 | 275,774.42 |

1st Quarter FFY 00

| | | |
|-----------------------------|--|-----------|
| Jefferson Memorial Hospital | | 26,050.41 |
|-----------------------------|--|-----------|

2nd Quarter FFY 01

| | | |
|-------------------------|--|-------------------|
| WVU Medical Corporation | | <u>153,335.85</u> |
|-------------------------|--|-------------------|

774,043.60